HOUSING MARKET OUTLOOK
St. John's CMA

CANADA MORTGAGE AND HOUSING CORPORATION

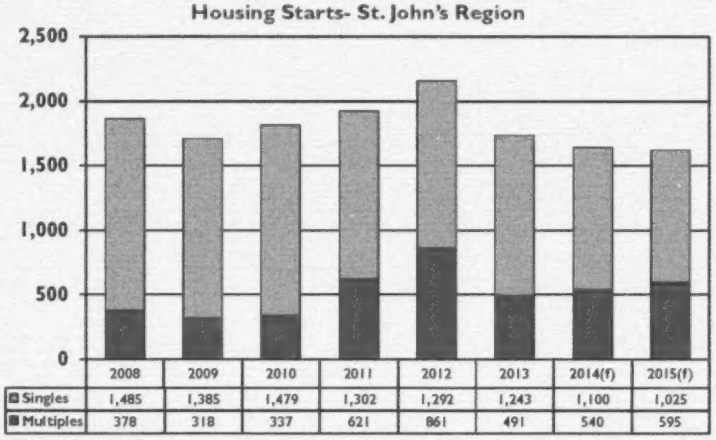
Date Released: Spring 2014

Highlights

- Pace of new home construction expected to slow in 2014
- Housing demand will be supported by favourable economic and demographic conditions
- Resale market and prices will remain stable
- Vacancy rate expected to creep up slowly over the forecast period

Figure 1

Slower New Home Construction Activity
Housing Starts- St. John's Region



	2008	2009	2010	2011	2012	2013	2014(f)	2015(f)
Singles	1,485	1,385	1,479	1,302	1,292	1,243	1,100	1,025
Multiples	378	318	337	621	861	491	540	595

Source and Forecast: CMHC

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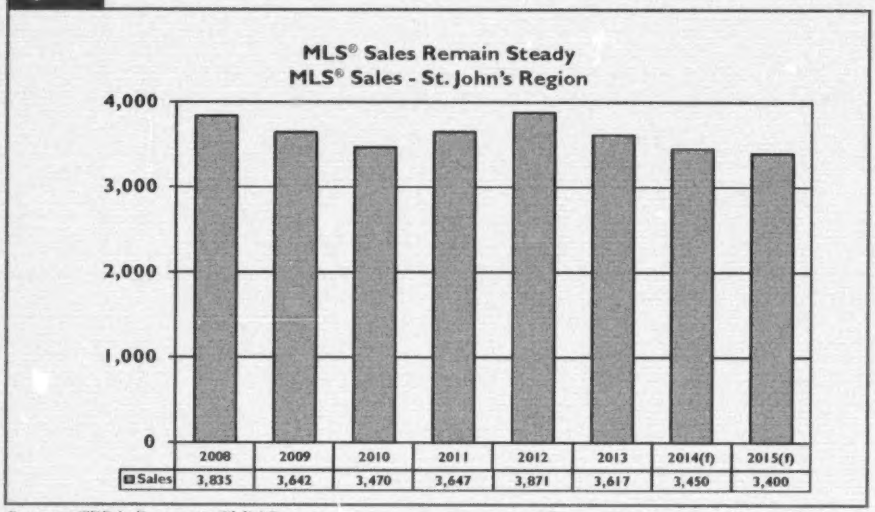
Figure 2



Source: CREA; Forecast: CMHC
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Slower New Home Construction Activity

New home construction continues to be supported by a relatively strong economy in St. John's. Despite a slowdown in local economic growth, which is anticipated to be temporary, healthy economic activity in recent years continues to generate employment growth and higher earnings. As a result, expect the market for residential construction to decelerate over the next two years.

Single-detached housing starts are expected to end this year down 11.5 per cent at 1,100 units for the St. John's area and decline slightly to 1,025 units in 2015. After record construction activity in the condominium market, fewer condo starts are expected in 2014 and 2015 due to a rise in the number of new unabsorbed units. The reduction in housing starts, however, will be partially offset by higher multi-unit apartment construction activity over the forecast period. It is expected that approximately 540 units will start this year and 595 units in 2015. Expect 1,640 total housing starts for the St. John's area in 2014, representing a 5.4 per cent decline and a similar level of 1,620 starts in 2015. Price growth is expected to slow over the next two years to levels closer to the inflation rate. The average single-detached price for a new home will reach approximately $400,000 this year and $410,000 in 2015.

A long standing trend within the bungalow home style market is the addition of basement apartments. Homebuyers are expected to continue to express a desire for this type of home because it allows for adding an income-generating apartment unit to offset mortgage carrying costs. With buyers showing preferences for these two-apartment homes, demand for row and semi-detached homes will remain slow, despite the substantial house price growth in general over the past six years.

Increased construction activity in the condo market has been largely driven by the aging population. This trend will continue to stimulate demand throughout the St. John's area this year and next. Prospective condo buyers continue to prefer to move from their single family homes to a condo without taking on additional mortgage debt. Rapidly rising prices within the condo market, however, is making it more challenging for buyers to live mortgage free and, as a result, mid-priced (under $350,000) condo development activity is expected to rise over the forecast period, while higher priced condo development should slow considerably.

MLS® Sales to Decline

The St. John's area MLS® market is expected to see lower sales activity this year and in 2015. MLS® sales should reach 3,450 units this year compared to 3,617 sales in 2013 and decline to 3,400 in 2015. With new home sales continuing to represent about one-third of total MLS® sales, new home construction activity will remain a significant contributor to total MLS® sales over the forecast period. Despite steady price growth, sales have trended down and inventory levels have been growing since 2012. As a result, sales activity is expected to decline 4.6 per cent this year and be flat in 2015. The increase in the average MLS® residential price over the past several years has been driven in part by buoyant new home construction activity throughout the St. John's area. With increased inventory in the local resale market and lower demand for resale housing, the forecast is for slower price growth this year and next. After six years of very strong growth, the average MLS® house price is forecast to rise 2.9 per cent to $310,000 in 2014 and reach $315,000 by 2015. Local move-up buyers with growing families and rising incomes continue to purchase above-average priced two-storey and custom homes. This trend will remain

supportive of higher prices, while below average-priced bungalows, row and semi-detached homes will continue to attract first-time homebuyers and households with modest income.

Rental Market will Remain Stable

Steady demand for rental units, paired with the introduction of newly completed units in the local apartment universe will provide stability to the rental market this year and next. Both rents and the vacancy rate are expected to rise moderately over the forecast period.

On the demand side, favourable economic conditions will remain a key driver of the in-migration of workers to the St. John's area. Existing home prices could deter some from accessing homeownership and they may view renting as an affordable and efficient option. Memorial University and local colleges also continue to attract both local and international students, who are likely to rent within the area as well, consequently supporting rental demand.

2012 marked the first time in over 25 years where new private investments were made in developing purpose built multi-unit residential projects. This trend is expected to continue over the forecast period. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment homes excluded) is expected to increase to 3.5 per cent this year and to 3.8 per cent in 2015. Despite these increases, the vacancy rate is relatively low in historic terms and as such, steady demand will continue to drive average rents higher. Expect the average two-bedroom monthly rent to increase from $864 in 2013 to $900 by the end of this year and to $925 in 2015.

Economic Trends

Newfoundland and Labrador (NL) will lead Atlantic Canada in economic growth in 2014 and 2015 as oil-driven GDP is expected to reach 1.6 per cent and then rise to two per cent in 2015. This trend will continue to have a positive impact on the St. John's economy, as the bulk of the oil industry's economic activities impact the capital city directly. Economic growth will also be supported by consumer spending and private sector energy investment activity. Recent news concerning new potential oil fields outside of the existing production areas will help support optimism. These new projects will stimulate economic activity over the next several years throughout the province and provide additional support to St. John's economy.

The province's economic future will continue to be supported by activity focused on energy and resource investments. NL labour market conditions continued to soften in 2013 after peaking in 2010 as employment growth increased by 1.1 per cent compared to 2.3 per cent in 2012. In 2014, employment growth will be reduced to less than one per cent as the majority of current private sector projects reach the completion stage and the province begins the transition to providing new manufacturing capacity within the resource sector. Net migration is expected to turn positive in 2015, due to an increase in interprovincial migration after two years of declines. Immigration will also continue to contribute positively to population growth in both 2014 and 2015. Overall, net migration is expected to remain positive within St. John's area both this year and in 2015 as migrants continue to be attracted to the region's healthy labour market.

Mortgage Rates to see Gradual and Modest Increases by the end of 2015, but will Remain Low by Historical Standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.5 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Short-term mortgage rates are expected to remain at historically low levels which will continue to support housing demand in 2014 and 2015.
Employment	Employment in St. John's has been relatively flat, due to a slight decline in the labour force, while the unemployment rate remains low it will remain supportive of the housing market.
Income	Average weekly earnings in excess of $1,000 year-to-date represent a record high and have increased well above inflation in recent years, including 2013. This has resulted in significant real wage growth which will contribute positively to housing demand for this year and 2015.
Population and Net Migration	Population growth continues to be driven by positive net migration to the St. John's area and this will support demand for all types of housing in 2014 and 2015.
Resale Market	With a recent rise in listings MLS® sales will fall below current levels with price growth coming closer to matching the rate of inflation.

Forecast Risks

- The level of oil production and the price of oil represent the two greatest factors underpinning the local economy. This is also the most significant risk to the forecast in terms of both upside and downside risk potential.
- The current inventory of newly built homes for sale could have a negative impact on housing starts for 2014 and 2015, if they are not absorbed at a rate that keeps the current level of inventory stable.
- Recent house price growth has led to historically high prices in the St. John's area. If interest rates or unemployment were to increase sharply, heavily indebted households could be forced to liquidate assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.

Forecast Summary St. John's CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	1,304	1,292	1,243	1,100	-11.5	1,025	-6.8
Multiples	619	861	491	540	10.0	595	10.2
Starts - Total	1,923	2,153	1,734	1,640	-5.4	1,620	-1.2
Average Price ($):							
Single-Detached	351,305	387,439	395,388	403,000	1.9	411,000	2.0
Median Price ($):							
Single-Detached	321,450	345,000	359,000	366,000	1.9	373,500	2.0
New Housing Price Index (% chg) (St. John's)	4.0	0.2	1.8	1.5	-	1.5	-
Resale Market							
MLS® Sales	3,470	3,647	3,617	3,450	-4.6	3,400	-1.4
MLS® New Listings	6,332	7,073	7,284	7,300	0.2	7,100	-2.7
MLS® Average Price ($)	251,191	268,608	301,333	310,000	2.9	315,000	1.6
Rental Market							
October Vacancy Rate (%)	1.3	2.8	3.2	3.5	0.3	3.8	0.3
Two-bedroom Average Rent (October) ($)	771	798	864	900	4.2	925	2.8
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	105,400	109,200	108,000	109,500	1.4	111,000	1.4
Employment Growth (%)	4.5	3.6	-1.1	1.4	-	1.4	-
Unemployment rate (%)	6.6	7.2	6.1	5.8	-	5.7	-
Net Migration	2,911	2,818	1,995	1,850	-7.3	1,750	-5.4

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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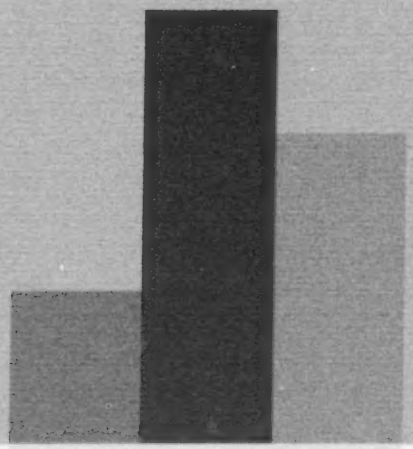

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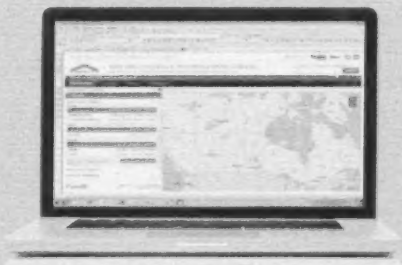

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